homogeneous risk characteristics, not on an individual-exposure basis, and:

(1) Is revolving (that is, the amount outstanding fluctuates, determined largely by a borrower's decision to borrow and repay up to a pre-established maximum amount, except for an outstanding amount that the borrower is required to pay in full every month);

(2) Is unsecured and unconditionally cancelable by the Board-regulated institution to the fullest extent permitted by Federal law; and

(3)(i) Has a maximum contractual exposure amount (drawn plus undrawn) of up to $100,000; or

(ii) With respect to a product with an outstanding amount that the borrower is required to pay in full every month, the total outstanding amount does not in practice exceed $100,000.

(4) A segment of exposures that contains one or more exposures that fails to meet paragraph (3)(ii) of this definition must be treated as a segment of other retail exposures for the 24 month period following the month in which the total outstanding amount of one or more exposures individually exceeds $100,000.

Retail exposure means a residential mortgage exposure, a qualifying revolving exposure, or an other retail exposure.

Retail exposure subcategory means the residential mortgage exposure, qualifying revolving exposure, or other retail exposure subcategory.

Risk parameter means a variable used in determining risk-based capital requirements for wholesale and retail exposures, specifically probability of default (PD), loss given default (LGD), exposure at default (EAD), or effective maturity (M).

Scenario analysis means a systematic process of obtaining expert opinions from business managers and risk management experts to derive reasoned assessments of the likelihood and loss impact of plausible high-severity operational losses. Scenario analysis may include the well-reasoned evaluation and use of external operational loss event data, adjusted as appropriate to ensure relevance to a Board-regulated institution's operational risk profile and control structure.

Total wholesale and retail risk-weighted assets means the sum of:

(1) Risk-weighted assets for wholesale exposures that are not IMM exposures, cleared transactions, or default fund contributions to non-defaulted obligors and segments of non-defaulted retail exposures;

(2) Risk-weighted assets for wholesale exposures to defaulted obligors and segments of defaulted retail exposures;

(3) Risk-weighted assets for assets not defined by an exposure category;

(4) Risk-weighted assets for non-material portfolios of exposures;

(5) Risk-weighted assets for IMM exposures (as determined in § 217.132(d));

(6) Risk-weighted assets for cleared transactions and risk-weighted assets for default fund contributions (as determined in § 217.133); and

(7) Risk-weighted assets for unsettled transactions (as determined in § 217.136).

Unexpected operational loss (UOL) means the difference between the Board-regulated institution's operational risk exposure and the Board-regulated institution's expected operational loss.

Unit of measure means the level (for example, organizational unit or operational loss event type) at which the Board-regulated institution's operational risk quantification system generates a separate distribution of potential operational losses.

Wholesale exposure means a credit exposure to a company, natural person, sovereign, or governmental entity (other than a securitization exposure, retail exposure, pre-sold construction loan, or equity exposure).

Wholesale exposure subcategory means the HVCRE or non-HVCRE wholesale exposure subcategory.

QUALIFICATION

§ 217.121 Qualification process.

(a) *Timing.* (1) A Board-regulated institution that is described in § 217.100(b)(1)(i) and (ii) must adopt a written implementation plan no later than six months after the date the Board-regulated institution meets a criterion in that section. The implementation plan must incorporate an explicit start date no later than 36 months after the date the Board-regulated institution meets at least one criterion under § 217.100(b)(1)(i) and (ii). The Board may extend the start date.

(2) A Board-regulated institution that elects to be subject to this subpart under § 217.101(b)(1)(iii) must adopt a written implementation plan.

(b) *Implementation plan.* (1) The Board-regulated institution's implementation plan must address in detail how the Board-regulated institution complies, or plans to comply, with the qualification requirements in § 217.122. The Board-regulated institution also must maintain a comprehensive and sound planning and governance process to oversee the implementation efforts described in the plan. At a minimum, the plan must:

(i) Comprehensively address the qualification requirements in § 217.122 for the Board-regulated institution and each consolidated subsidiary (U.S. and foreign-based) of the Board-regulated institution with respect to all portfolios and exposures of the Board-regulated institution and each of its consolidated subsidiaries;

(ii) Justify and support any proposed temporary or permanent exclusion of business lines, portfolios, or exposures from the application of the advanced approaches in this subpart (which business lines, portfolios, and exposures must be, in the aggregate, immaterial to the Board-regulated institution);

(iii) Include the Board-regulated institution's self-assessment of:

(A) The Board-regulated institution's current status in meeting the qualification requirements in § 217.122; and

(B) The consistency of the Board-regulated institution's current practices with the Board's supervisory guidance on the qualification requirements;

(iv) Based on the Board-regulated institution's self-assessment, identify and describe the areas in which the Board-regulated institution proposes to undertake additional work to comply with the qualification requirements in § 217.122 or to improve the consistency of the Board-regulated institution's current practices with the Board's supervisory guidance on the qualification requirements (gap analysis);

(v) Describe what specific actions the Board-regulated institution will take to address the areas identified in the gap analysis required by paragraph (b)(1)(iv) of this section;

(vi) Identify objective, measurable milestones, including delivery dates and a date when the Board-regulated institution's implementation of the methodologies described in this subpart will be fully operational;

(vii) Describe resources that have been budgeted and are available to implement the plan; and

(viii) Receive approval of the Board-regulated institution's board of directors.

(2) The Board-regulated institution must submit the implementation plan, together with a copy of the minutes of the board of directors' approval, to the Board at least 60 days before the Board-regulated institution proposes to begin its parallel run, unless the Board waives prior notice.

(c) *Parallel run.* Before determining its risk-weighted assets under this subpart and following adoption of the implementation plan, the Board-regulated institution must conduct a satisfactory parallel run. A satisfactory parallel run is a period of no less than four consecutive calendar quarters during which the Board-regulated institution complies with the qualification requirements in § 217.122 to the satisfaction of the Board. During the parallel run, the Board-regulated institution must report to the Board on a calendar quarterly basis its risk-based capital ratios determined in accordance with § 217.10(b)(1) through (3) and § 21710.(c)(1) through (3). During this period, the Board-regulated institution's minimum risk-based capital ratios are determined as set forth in subpart D of this part.

(d) *Approval to calculate risk-based capital requirements under this subpart.* The Board will notify the Board-regulated institution of the date that the Board-regulated institution must begin to use this subpart for purposes of § 217.10 if the Board determines that:

(1) The Board-regulated institution fully complies with all the qualification requirements in § 217.122;

(2) The Board-regulated institution has conducted a satisfactory parallel

run under paragraph (c) of this section; and

(3) The Board-regulated institution has an adequate process to ensure ongoing compliance with the qualification requirements in § 217.122.

[Reg. Q, 78 FR 62157 and 62285, Oct. 11, 2013, as amended at 78 FR 62288, Oct. 11, 2013]

§ 217.122 Qualification requirements.

(a) *Process and systems requirements.* (1) A Board-regulated institution must have a rigorous process for assessing its overall capital adequacy in relation to its risk profile and a comprehensive strategy for maintaining an appropriate level of capital.

(2) The systems and processes used by a Board-regulated institution for risk-based capital purposes under this subpart must be consistent with the Board-regulated institution's internal risk management processes and management information reporting systems.

(3) Each Board-regulated institution must have an appropriate infrastructure with risk measurement and management processes that meet the qualification requirements of this section and are appropriate given the Board-regulated institution's size and level of complexity. Regardless of whether the systems and models that generate the risk parameters necessary for calculating a Board-regulated institution's risk-based capital requirements are located at any affiliate of the Board-regulated institution, the Board-regulated institution itself must ensure that the risk parameters and reference data used to determine its risk-based capital requirements are representative of its own credit risk and operational risk exposures.

(b) *Risk rating and segmentation systems for wholesale and retail exposures.* (1) A Board-regulated institution must have an internal risk rating and segmentation system that accurately and reliably differentiates among degrees of credit risk for the Board-regulated institution's wholesale and retail exposures.

(2) For wholesale exposures:

(i) A Board-regulated institution must have an internal risk rating system that accurately and reliably assigns each obligor to a single rating grade (reflecting the obligor's likelihood of default). A Board-regulated institution may elect, however, not to assign to a rating grade an obligor to whom the Board-regulated institution extends credit based solely on the financial strength of a guarantor, provided that all of the Board-regulated institution's exposures to the obligor are fully covered by eligible guarantees, the Board-regulated institution applies the PD substitution approach in § 217.134(c)(1) to all exposures to that obligor, and the Board-regulated institution immediately assigns the obligor to a rating grade if a guarantee can no longer be recognized under this part. The Board-regulated institution's wholesale obligor rating system must have at least seven discrete rating grades for non-defaulted obligors and at least one rating grade for defaulted obligors.

(ii) Unless the Board-regulated institution has chosen to directly assign LGD estimates to each wholesale exposure, the Board-regulated institution must have an internal risk rating system that accurately and reliably assigns each wholesale exposure to a loss severity rating grade (reflecting the Board-regulated institution's estimate of the LGD of the exposure). A Board-regulated institution employing loss severity rating grades must have a sufficiently granular loss severity grading system to avoid grouping together exposures with widely ranging LGDs.

(3) For retail exposures, a Board-regulated institution must have an internal system that groups retail exposures into the appropriate retail exposure subcategory, groups the retail exposures in each retail exposure subcategory into separate segments with homogeneous risk characteristics, and assigns accurate and reliable PD and LGD estimates for each segment on a consistent basis. The Board-regulated institution's system must identify and group in separate segments by subcategories exposures identified in § 217.131(c)(2)(ii) and (iii).

(4) The Board-regulated institution's internal risk rating policy for wholesale exposures must describe the Board-regulated institution's rating philosophy (that is, must describe how wholesale obligor rating assignments